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84-9272

The Director of Central Intelligence

Washington, D.C. 20505

AH. ER84-9230
NIC 84-05371

20 September 1984

STAT

[redacted]

Dear [redacted]

STAT

Thank you for sending me your draft recommendations, "Organizing US Economic Policy." I have had officers who work here in international economics look at the material you left for me, as well as some related perceptions that we have developed about Soviet efforts to expand influence in the Third World.

They agree that some new organizational forms are needed to better deal with the growing linkages between domestic and international economic policy as well as between the political, military, and economic aspects of foreign policy. Although the effectiveness of any organizational structure in the final analysis depends on the personalities and their relationships, experience during several Administrations strongly suggests that effective policy integration and coordination requires at a minimum:

- Vesting important cross-cutting policy responsibilities in an individual with easy access to the President;

- Creation of a substantive staff capable of conceptualizing and managing policy issues in a manner that considers, but cuts across, parochial departmental perspectives.

So long as these requirements are met, we believe that the way inter-agency committees at the Cabinet and sub-Cabinet level are organized is of lesser importance.

In our view, the principal weakness of the present system is the absence of a substantial staff capable of taking a national, as against a departmental, view of international economic policy. The SIG-IEP, through which most international economic issues are routed, has no designated staff. The Secretary of the Treasury, as the SIG-IEP Chairman, uses the regular Treasury line officials as a de facto staff. These officials, although very competent, have neither the time nor the bureaucratic flexibility to produce creative and well-integrated policy studies or proposals. Unfortunately, there are also no substantial staff elements in other agencies capable of performing this role. The NSC Staff, which would be in the best position to do so, is far too thin. These problems could probably best be remedied by creating a new staff in the White House.

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P.312

We think the functions of this staff should probably be limited to international economic policy, not to overall economic policy as you suggest. This staff would compete on many issues with existing White House officials and staffs, notably the Council of Economic Advisers and the Office of Management and Budget. The leader of this enterprise would need a close relationship with the President.

We don't want to get into the question of whether this staff should be part of the NSC Staff or an individual staff headed by another Special Assistant to the President. It does seem clear that it should have the public leadership of someone with substantial visibility and power, much in the way that George Shultz and Bill Simon did it during the 1973-1976 period.

These thoughts represent the general reaction of some of our analysts to the ideas you left with me.

On another front, the Soviets have gained their influence in the Third World by a process consisting largely of support for insurgencies and assistance to Third World military. They are quite helpless in delivering economic benefits. If we were able to get our entrepreneurs, our technology, and our managerial and marketing skills more actively applied to resources and economic opportunities existing in the Third World, I believe we could quickly expand our own influence and counter the expansion of Soviet influence. To really accomplish this, our foreign aid would need to be modified to develop incentives for greater entrepreneural activity abroad.

As part of our foreign economic intelligence work, we have been focusing on identifying resources and economic opportunities abroad which could provide the basis for increased Western commitment of private skills, money and technology which, in turn, could enhance the living standards in Third World countries, and our influence there, as well as their ability to carry the crushing burden of debt which they have acquired. It might be useful to have some of our experts brief your commission on this work.

Sincerely,

Bill

William J. Casey

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The Director of Central Intelligence

Washington, D.C. 20505

Executive Registry

84- 9230

19 September 1984

Dear [redacted]

STAT

This paper seems to have been included, perhaps by mistake, in the papers you left with me the other day. On the other matters, I will have a response to you shortly.

Best regards.

Yours,

Bill

William J. Casey

[redacted]

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The Director of Central Intelligence

Washington, D.C. 20505

National Intelligence Council

18 September 1984

MEMORANDUM FOR: Director of Central Intelligence

FROM: Herbert E. Meyer, Vice Chairman
National Intelligence Council

SUBJECT: The [redacted] Recommendations 25X1

1. The draft recommendations that [redacted] outlined to you are widely supported by members of the President's Task Force. However, these recommendations are peripheral to the charter of the Task Force and they account for only a fraction of the entire report. 25X1

2. The bulk of the full draft report, in terms of both dollars and emphasis, focuses on increasing opportunities for US companies to sell more goods and services to the US government and to foreign governments. Among the draft recommendations are these:

-- Doubling of P.L. 480 grain exports,

-- Lifting of cargo-preference requirements,

-- Opening China for P.L. 480,

-- Mixed credits to finance commodities sales at below-market rates.

Some members of the Task Force have pointed out that these recommendations, if adopted, would be of special benefit to the big-grain trading companies, such as [redacted] 25X1

3. The Task Force was formed to advise the President on the role of private enterprise in international economic development. Its charter was to develop recommendations to implement the policy which the President articulated at Cancun. There is virtually nothing in the entire draft report that will necessarily have a direct impact on the LDC private sector; virtually all programs are to continue to flow through the LDC public sector. The US foreign assistance structure would remain unchanged.

All portions of this memo
are classified CONFIDENTIAL

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4. These recommendations are under furious attack from Task Force members including Butch Otter, Mike Rashish, and George Ferris. Their proposal involves a vast expansion of OPIC, including a funding level in the $500 million-a-year range. This amount, which equals about 25% of AID's current project budget, would be taken away from AID. Not surprisingly, Peter McPherson and his people are fighting this idea. More details of the minority position are outlined in the attached.

5. The minority is arguing that the current recommendations are virtually irrelevant to the Task Force charter, and they are threatening to go public if [redacted] continues to refuse consideration of 25X1
recommendations the minority believes address the Task Force charter. I am told that [redacted] has refused several motions for votes on the draft 25X1
recommendations, and that the minority thinks there is some chance they could actually defeat [redacted] if they could get a vote. 25X1

[redacted] 25X1

Attachment: a/s

MEMORANDUM

TO: Jerry West, OPIC
FROM: Peter Schaefer
CC: Butch Otter,
DATE: 28 June 1984
SUBJECT: Outline of OPIC Proposal to Task Force

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1. I want to be clear about the scope and nature of the proposals for OPIC which might be submitted to the full Task Force and get your feedback before doing so. Obviously this is not a fixed formula but principles that Butch Otter and other members of the President's Task Force have discussed over the last eight or nine months. Recommendations to the President will first have to be agreed upon by Task Force members with the final formula being detailed by the administration and Congress. The following is my understanding of the desirable recommendations.

2. Overview: The Task Force feels that it is critical for a greater amount of ODA be channeled directly to the private sector. Some, however, feel that ODA must be channeled through or approved by the recipient government and thus believe that non-official intermediaries must be used. Others disagree and there is a good deal of debate as to the means of meeting these ends.

Those supporting the provision of ODA directly to the private sector see no need to reinvent the wheel. One need only look to the IFC and other similar institutions of donor governments and regional development banks to find appropriate models. In general terms, what would be proposed for OPIC will be an enhanced mandate for the finance division to function much like the IFC with a greatly enlarged budget. Specifically:

o the authority to use more innovative financial mechanisms,

o the authority to co-finance with public and private institutions which finance private projects,

o and the authority to expand your staff and operations.

3. OPIC's Focus: The Finance Division's clients should be private firms or joint-ventures at least 25% U.S. owned that intend to operate in LDCs. I would guess that Congress would wish to insist, as well, on at least 25% private foreign ownership to be sure that the indigenous private sector is stimulated and that OPIC does not end up financing sub-assembly plants in the Caribbean. LDC development banks or public institutions like IFC sh

should be permitted but not counted as "foreign".

OPIC should be financing the higher risk projects in LDCs which are deemed commercially viable with viability assessed on the competance and commitment of management and the probability of success, not only collateral.

4. Financial Increase: In order that OPIC can become a global financial institution able, at least in theory, to function in those countries to whom we wish to provide assistance the available budget must be sufficient. Out of the $16 billion foreign assistance budget, the project's supporters will suggest $500 million per annum (3% of ODA) in financing capability. This is comparable to other similar institutions which have a global charter.

The drawdown of these funds would not be achieved for several years. In the first few years of staff building we would expect to see much of OPIC's activities be co-financing with established institutions.

5. Enhanced Mandate: As we see it now, OPIC should be able to provide a nearly complete range of financial and technical assistance to private projects. This will necessitate the expansion of OPIC staff to include sophisticated project appraisal specialists (engineers, finance specialists, etc).

Although OPIC project officers in each AID mission does not seem approriate, there might be a small regional coordinating office attached to each of the regional development bank headquarters which have private funding facilities (ie. Asian, Inter-American, and Caribbean). In Africa the office might be with the IFC regional office until the AfDB is cajoled into taking this step.

6. New Financial Mechanisms: By charter OPIC should only be allowed to participate in private projects. Like IFC, you should not seek local government guarantees nor invest in parastatals but would be allowed to participate in private companies which are also receiving assistance from local development banks or government financial institutions. However the entrepreneur must be private, not public.

Investments should have a reasonable expectation of repayment and plan to compete on the open market (ie. no protected industries), that is, be commercially viable. Thus the debt portion of OPIC participation will not be subsidized and should, like IFC and others, reflect the real cost of money and risk.

Unfortunately, equity markets in LDCs are rarely adequate so high levels of debt often characterize LDC projects. But commercial interest rates for new projects in LDCs (particularly in the agriculture sector) are often not supportable by early cashflows. A key to the success of any private financing institution in LDCs is the ability to provide capital in the early stages on commercial terms that is not a burden. This will necessite OPIC having the flexility to offer non-equity financial instruments which have the initial cashflow impact of equity.

7. Co-Financing: It would be important, especially in the early years, that OPIC be able to co-finance with other like financial institutions. This will reduce risks and enhance the diversity not only for OPIC but for the co-financiers whose support we contribute to through other channels.

8. Management Assistance: IFC, being owned by over 100 countries, cannot show preference to investors or exporters in any one country. OPIC, of course, would be required to help the U.S. private sector. This would allow a bit more flexibility in operations. OPIC should have the ability to help, in fact solicit, viable foreign LDC ventures which wish to acquire US technology and capital. OPIC should be able to solicit bids from equipment suppliers, investors and management services companies and then help finance their participation.

This intermediary role suggests close cooperation with Ex-Im Bank and TDP and a thorough knowledge of US technology and financial firms who are now or wish to operate in the Third World. For example, OPIC should be able to assist in arranging (not just identify) management services when projects are submitted which are essentially viable but weak on management. Leaving aside the obvious point of reducing risk to investors, there is no more effective means of transferring business techniques than through a management contract a part of which has the local owners and staff trained for several years by foreign managers.

9. Risk Factors: The point of this effort is threefold. First, that some ODA will go directly to the private sector of LDCs thereby stimulating desirable economic growth outside the direct responsibity and control of the central government. That is growth of the economy without growth of the government.

Secondly, that within the U.S. missions there will develop a commitment and sensitivity to the nurture of a market economy. Hopefully the buraucracy will come to recognize that this is the most effective means to stimulate self-sustaining economic growth.

And finally that there are lenders of last resort who can, particularly as the commercial lenders retreat from their LDC portfolios, finance viable projects rejected by cautious commercial institutions.

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Next 19 Page(s) In Document Denied